BALANCED BUDGET RECONCILIATION/$89 Billion Medicare Bankruptcy Plan

SUBJECT: **Balanced Budget Reconciliation Act of 1995 . . . S. 1357. Rockefeller motion to commit the bill to the Committee on Finance with instructions.**

ACTION: MOTION REJECTED, 46-53

SYNOPSIS: As reported, S. 1357, the Balanced Budget Reconciliation Act of 1995, will result in a balanced budget in seven years, as scored by the Congressional Budget Office (CBO). The bill will also provide a $245 billion middle-class tax cut, $141.4 billion of which will be to provide a $500 per child tax credit.

The Rockefeller motion to commit the bill to the Finance Committee would instruct it to report the bill back to the Senate within 3 session days with "reductions" in Medicare of no more than $89 billion, and with the cost offset by providing less tax reductions for "upper-income taxpayers." The $89 billion reduction would be a reduction in the rate of increase in Medicare spending. In actuality, this "reduction" would demand $530 billion more in Medicare spending over the next 7 years than is currently spent (which is $181 billion more than the bill increase of $349 billion in Medicare spending). Because this bill provides $245 billion in tax reductions, 90 percent of which will go to taxpayers with incomes under $100,000 in fiscal year (FY) 1996, and 84 percent of which will go to taxpayers with incomes of less than $100,000 over FYs 1996-2000, this motion would effectively require the elimination of most of the tax reductions for those "upper-income taxpayers" who make less than $100,000 per year. The effect of allowing only a marginal reduction in the projected rate of growth in the Medicare Program (which is growing at more than 10 percent each year) would be that the program would be totally broke in 2004 instead of 2002, according to a preliminary estimate by the Congressional Budget Office.)

NOTE: Prior to the vote, a Brown modified amendment to the Rockefeller motion was withdrawn. That amendment would have amended the instructions to the Finance Committee to require it to instead report the bill back forthwith with the requirement that all the savings in the bill from changes to Part B (Supplemental Medical Insurance) of Medicare be transferred from the general fund of the Treasury to the trust fund for Part A (Hospital Insurance) of Medicare, in order to improve the actuarial soundness of the Medicare Program.

(See other side)

YEAS (46)			NAYS (53)			NOT VOTING (0)	
Republicans (1 or 2%)	**Democrats (45 or 98%)**		**Republicans (52 or 98%)**		**Democrats (1 or 2%)**	**Republicans (0)**	**Democrats (0)**
Specter	Akaka	Hollings	Abraham	Helms	Nunn		
	Baucus	Inouye	Ashcroft	Hutchison			
	Biden	Johnston	Bennett	Inhofe			
	Bingaman	Kennedy	Bond	Jeffords			
	Boxer	Kerrey	Brown	Kassebaum			
	Bradley	Kerry	Burns	Kempthorne			
	Breaux	Kohl	Campbell	Kyl			
	Bryan	Lautenberg	Chafee	Lott			
	Bumpers	Leahy	Coats	Lugar			
	Byrd	Levin	Cochran	Mack			
	Conrad	Lieberman	Cohen	McCain			
	Daschle	Mikulski	Coverdell	McConnell			
	Dodd	Moseley-Braun	Craig	Murkowski			
	Dorgan	Moynihan	D'Amato	Nickles			
	Exon	Murray	DeWine	Pressler			
	Feingold	Pell	Dole	Roth			
	Feinstein	Pryor	Domenici	Santorum			
	Ford	Reid	Faircloth	Shelby			
	Glenn	Robb	Frist	Simpson			
	Graham	Rockefeller	Gorton	Smith			
	Harkin	Sarbanes	Gramm	Snowe			
	Heflin	Simon	Grams	Stevens			
		Wellstone	Grassley	Thomas			
			Gregg	Thompson			
			Hatch	Thurmond			
			Hatfield	Warner			

EXPLANATION OF ABSENCE:
1—Official Buisiness
2—Necessarily Absent
3—Illness
4—Other

SYMBOLS:
AY—Announced Yea
AN—Announced Nay
PY—Paired Yea
PN—Paired Nay

Those favoring the motion to commit contended:

The Rockefeller motion gives Senators a stark choice. Do they want older Americans to live healthy, peaceful, and secure lives, or do they want them to live in terror and insecurity, knowing that if they become ill after a lifetime of hard work they will be denied medical care? We feel as though we are in a bad dream. We have a bill before us that will take $270 billion from Medicare, which provides health care to senior citizens with average incomes of $17,750, and will give that money to rich Americans and huge corporations.

Some Senators claim that we need to make $270 billion in cuts from Medicare in order to save it from going broke. They are totally wrong. The Health Care Financing Administration actuary has reported that a cut of $89 billion would be enough to save the program for 10 years. By making an $89 billion cut now, the Senate would be giving itself a 10-year window in which it would be able to consider alternatives for saving Medicare. The debate on Medicare would be removed from issues of balancing the budget, and it would be removed as a means of paying for tax breaks that our Republican colleagues wish to pass.

The only reason that Republicans have proposed cutting $270 billion is because they want to give a $245 billion tax break to their rich friends. For us, nothing encapsulates this debate more than the fact that this bill will give an estate tax break on the first $5 million of an estate at the same time as it slashes health care for elderly people of very limited means. They are not worried about helping sick old people--if they were, they would use the savings from balancing the budget to improve health care services for the elderly instead of to give tax breaks to their rich cronies.

The Medicare cuts that our Republican colleagues have proposed are not market-based reforms; they are simply savage reductions. Their plan is not to fix the program; it is to deny needed health care to senior citizens. They should not be allowed to get away with this plan. The tax breaks in this bill have nothing to do with balancing the budget. Getting rid of them in order to stop this raid on Medicare will not prevent the budget from being balanced. We urge colleagues to join us in voting for the Rockefeller stop-gap motion, to protect Medicare from being raided to fund tax cuts for the wealthy.

Those opposing the motion to commit contended:

The Medicare Program has two broad, related problems. First, both its Medical Hospital Insurance fund and its Supplemental Medical Insurance fund are going broke. Without comprehensive reforms, Medicare will be operating in the red by next year and by 2002 its Part A (hospitalization) trust fund will be totally depleted. The related problem is that senior citizens who rely on Medicare do not have any options on the type of care that they receive. They are locked into a system that provides limited benefits in an extremely costly, inefficient manner. The solution offered by this bill is to remove much of the costly red tape, to expand the health care options so senior citizens may be able to select better options at lower costs, and to use the resulting savings to stop the program from going broke. In fact, every penny of the savings will be dedicated to the Part A trust fund, thereby increasing the soundness of that fund by an additional $270 billion.

According to the April 1995 Medicare Trustees' report (President Clinton has appointed four of the five trustees, who include Secretary Shalala and Secretary Rubin), the Medicare Hospital Insurance (Part A) and the optional Supplementary Medical Insurance (part B for doctor payments) trust funds require "prompt, effective, and decisive action" due to the financial problems of both funds. Medicare spending is growing at the unsustainable rate of 10.5 percent. That report calls not for a $270 billion adjustment over the next 7 years, but for a $387 billion adjustment over the next 5 years in order to make Medicare solvent for 25 years under the Trustees' intermediate assumptions. Considering that performance of Medicare has generally been at Medicare Trustees' pessimistic assumptions, it may well be optimistic to assume that a $387 billion adjustment is enough. This very detailed report has been available since April, and we find it to be very credible.

We by no means find credible the sudden pronouncement by the Health Care Financing Actuary that $89 billion would keep the program solvent for 10 years. Of course, if true, all that means is that collapse optimistically would be staved off for 2 more years. Further, this $89 billion only relates to Medicare Part A; the voluntary Part B section of Medicare is also in trouble, though it will not go broke quite as soon as Part A.

Democrats tell us they have a plan to save Medicare for 2 more years based on the Medicare Actuary's pronouncement. The Rockefeller motion supposedly would implement that plan. This motion seems like a political stunt to us, because we have not seen any details to back up exactly how $89 billion will extend solvency for 2 years. Our Democratic colleagues tell us they have a plan--where is it? Where will cuts be made? The answer is they do not have a plan. The may be busily drafting one to match their rhetoric, but as of now, we are certain that none exists.

The reason why earlier action needs to be taken is that each year the problem gets worse. The longer we wait, the larger the correction will have to be in order to save the program. Making a $387 billion adjustment over 5 years, as suggested by President Clinton's own Cabinet members, would be much less harmful than waiting to the 11th hour and then having to make a $387 billion adjustment in 1 year, plus additional amounts to cover the greater debt that will have accrued in the interim. The 2-year adjustment our colleagues propose would be politically painless, but it also would be cowardly and irresponsible to agree to it because it would only delay real reform and would thus make the problem worse.

On this bill, Republicans have offered a detailed plan that will both save Medicare and will fix the problem of limited coverage and health care options for senior citizens. The savings from this plan ($270 billion) will be less than the $387 billion adjustment that was advocated by the Medicare Trustees, but we have ample evidence to believe that it will be sufficient to get the job done. Under this plan, Medicare spending will be allowed to rise at twice the rate of inflation (6.4 percent) instead of at the unsustainable rate of 10.4 percent. Spending per beneficiary will rise from $4,800 today to $6,700 in FY 2002. The rate of growth for hospitals will be 5 percent; for physicians, 6.4 percent; nursing homes, 8.1 percent; durable medical equipment, 9.7 percent; labs, 8.7 percent; and home health care, 8.7 percent.

The main feature of the Republican plan is that beginning in 1997 all senior citizens now eligible for Medicare will be eligible to enroll in Medicare Choice plans operating within their geographic areas. Medicare Choice plans will be part of a new program modeled on the Federal Employee Health Benefits Program (FEHB) which has operated since 1959 and serves almost 10 million current and former Federal employees and their families. Seniors not wishing to change the way they currently receive Medicare will be able to remain under the current system. The current system is a "fee-for-service" system. This system does not cover all medical expenses such as prescription drug expenses. Senior citizens who do not want fee-for-service coverage will be able to enroll in health maintenance organizations (HMOs), Preferred Provider Organizations, Point of Service plans, Medical Savings Accounts (MSAs), association and union plans, and any other plans that meet service requirements and state licensing requirements, that assume full financial risk, and that meet Federal solvency standards.

The MSA option is one of the most innovative parts of this proposal. MSAs will be financed by the difference between the Federal contribution to the beneficiary and the cost of a chosen plan. MSAs will be administered by banks, insurance companies, or similarly qualified trustees. Disbursements from accounts for recognized health-related transactions will be non-taxable; however, non-health related withdrawals and interest will be taxable. MSAs will also be allowed to exist as stand-alone plans with the purchase of high deductible policies ($3,000) that will limit out-of-pocket expenses to $6,000.

For Medicare Part B, the voluntary portion of Medicare, this plan will freeze the premium that must be paid by beneficiaries at the current 31.5 percent. The other 68.5 percent will continue to be picked up by the taxpayers. (More accurately, because of the deficit, the additional amount will be picked up by senior citizens' grandchildren, who will be left with the debt). Wealthy senior citizens, including many Senators, will have to pay a larger percentage. The plan will also increase the deductible to $150, and will increase it by $10 per year for each of the next 6 years thereafter. The cumulative result will be a $9 per month premium increase in FY 2002, which is $31 less than the projected increase in Social Security benefits.

To keep the program further in check instead of as an open-ended entitlement, a Budget Expenditure Limit Tool (BELT) will be enacted. If spending targets are exceeded in any year as certified by the Congressional Budget Office, provider payment reductions will be made in order to reach the targets. However, those payment reductions will not affect coinsurance, deductibles, or premium amounts payable by beneficiaries. Providers of the services will be forced to absorb the costs. We do not expect that we will ever have to employ the BELT, though, because if experience is any guide, Medicare Choice plans will be able to match the success of private sector plans that have recently been able to keep growth rates well under 6.5 percent.

Another key part of the Republican plan, which in principle at least our Democratic colleagues do not oppose, is to reduce Medicare fraud, which consumes up to 10 percent of all program costs. This section has been under development for a long time, and has the support of providers, beneficiaries, and law enforcement officials. Unfortunately, some Democrats want to substitute alternate provisions at the last minute that have not been approved by the parties involved, but at least they do not object to the need for reform in this area.

Over and over in this debate Democratic Senators have made the doubly false assertion that the cuts in Medicare are being made in order to pay for tax cuts for the rich. First, as we have already explained, the cuts in the rate of growth in Medicare are being made to prevent its insolvency, and every penny of the savings are being added to the Medicare trust fund. Second, they have said that this money, which they know is really going into the Medicare trust fund, is going to be given to the rich. However, they are fully aware that 90 percent of the tax breaks this year will go to people earning less than $100,000, and 77 percent will go to those making under $75,000. The tax cuts will be paid for from the fiscal dividend that will accrue as a result of balancing the budget, not from Medicare, and they will go to middle-class Americans. Over the first 5 years, those percentages are 84 percent and 70 percent, respectively. Our Democratic colleagues may peddle their claim to these Americans that they are "millionaires" and that the tax cuts we have proposed for them are related to reforming Medicare, but we doubt that they will buy it.

Overall, the problem with the Medicare program is that it is an archaic system with a vast, inefficient bureaucracy that is dedicated to providing medical care in the most expensive manner possible. Improving the program as planned in this bill will result in enough savings to extend the solvency of the program well into the next century (though eventually further adjustments will have to be made as the ratio of workers to retirees shrinks), instead of bankrupting it. It will also result in better medical care for senior citizens. Unlike the Democrats' $89 billion plan for bankruptcy, the Republicans' plan will save Medicare. We therefore strongly urge the rejection of the Rockefeller motion to destroy Medicare.